

ORIGINAL
OPEN MEETING



MEMORANDUM

410

TO: THE COMMISSION

FROM: Utilities Division

DATE: January 30, 2007

RE: GLOBAL CROSSING TELECOMMUNICATIONS, INC.; GLOBAL CROSSING NORTH AMERICAN NETWORKS, INC.; GLOBAL CROSSING LOCAL SERVICES, INC.; AND GLOBAL CROSSING TELEMAGEMENT, INC. – APPLICATION FOR APPROVAL TO ENCUMBER ASSETS IN CONNECTION WITH NEW FINANCING (DOCKET NOS. T-02438B-06-0375, T-02761B-06-0375, T-03658A-06-0375 AND T-03539A-06-0375)

Attached is Staff's Report (docketed December 29, 2006) and recommended order for the application of Global Crossing North American Networks, Inc., Global Crossing Local Services, Inc., and Global Crossing Telemagement, Inc. – application for approval to encumber assets in connection new financing. Staff recommends conditional approval for each applicant to pledge assets.

Ernest G. Johnson
Director
Utilities Division

EGJ:DWC:lhmm\MAS

ORIGINATOR: Darron W. Carlson

Arizona Corporation Commission
DOCKETED
JAN 30 2007

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AZ CORP COMMISSION
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2007 JAN 30 P 4:43

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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

EA for EGJ

2006 DEC 29 P 2:08

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: December 29, 2006

RE: STAFF REPORT FOR GLOBAL CROSSING TELECOMMUNICATIONS, INC.; GLOBAL CROSSING NORTH AMERICAN NETWORKS, INC.; GLOBAL CROSSING LOCAL SERVICES, INC.; AND GLOBAL CROSSING TELEMAGEMENT, INC. APPLICATION FOR APPROVAL TO ENCUMBER ASSETS IN CONNECTION WITH NEW FINANCING (DOCKET NOS. T-02438B-06-0375, T-02761B-06-0375, T-03658A-06-0375, T-03539A-06-0375)

Attached is the Staff Report for Global Crossing Telecommunications, Inc.; Global Crossing North American Networks, Inc.; Global Crossing Local Services, Inc.; and Global Crossing Telemagement, Inc. application for approval to incur debt and/or encumber assets as security for new debt financing incurred by each other and/or their parent firm. Staff recommends conditional approval for each applicant to pledge assets.

EGJ:MEB:tdp

Originator: Michael Bailey

Service List for: Global Crossing Telecommunications, Inc. et al
Docket Nos. T-02438B-06-0375 et al

Ms. Joan S. Burke
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Phoenix, Arizona 85012

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Global Crossing North America, Inc.
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Mr. Christopher C. Kempley
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Arizona Corporation Commission
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Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**GLOBAL CROSSING TELECOMMUNICATIONS, INC.; GLOBAL CROSSING
NORTH AMERICAN NETWORKS, INC.; GLOBAL CROSSING LOCAL SERVICES,
INC.; AND GLOBAL CROSSING TELEMAGEMENT, INC.
DOCKET NOS. T-02438B-06-0375, T-02761B-06-0375, T-03658A-06-0375, AND
T-03539A-06-0375**

**APPLICATION FOR APPROVAL TO ENCUMBER ASSETS IN CONNECTION WITH
NEW FINANCING**

DECEMBER 29, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for Global Crossing Telecommunications, Inc.; Global Crossing North American Networks, Inc.; Global Crossing Local Services, Inc.; and Global Crossing Telemanagement, Inc., Docket Nos. T-02438B-06-0375, T-02761B-06-0375, T-03658A-06-0375, T-03539A-06-0375, is the responsibility of the Staff member listed below. Michael Bailey is responsible for the financial review and analysis.

A handwritten signature in black ink, appearing to read 'M. Bailey', is centered on the page.

Michael Bailey
Public Utilities Analyst III

EXECUTIVE SUMMARY
GLOBAL CROSSING TELECOMMUNICATIONS, INC. ET AL
DOCKET NOS. T-02438B-06-0375 ET AL

Global Crossing Telecommunications, Inc. ("GCTI")¹, Global Crossing North American Networks, Inc. ("GCNAN")², Global Crossing Local Services, Inc. ("GCLSI")³, and Global Crossing Telemanagement, Inc. ("GC Telemanagement")⁴ collectively ("Applicants") are wholly-owned subsidiaries of Global Crossing North America, Inc. ("Parent") and are non-dominant telecommunications carriers with authority to provide competitive local exchange, intrastate, and private line services within the state of Arizona. The Applicants filed an application with the Arizona Corporation Commission ("Commission") on June 2, 2006, requesting approval pursuant to A.R.S. §40-285 and R14-2-804(B)(1) to provide guarantee, serve as borrowers or co-borrowers, or otherwise provide security, as part of financing arrangements being arranged by Parent.

The Applicants request authorization to pledge assets as security and/or serve as borrowers or co-borrowers with Parent in connection with up to \$200 million of new debt financing that includes a \$55 million revolving senior credit facility and \$145 million as letters of credit, secured and unsecured debentures and term loans. The Applicants' contemplate asset pledges that include, but are not limited to, receivables, tangible personal property, equipment, intellectual property, their stock as well as substantially all of their North American assets.

The Applicants and/or Parent intend to use the proceeds for general corporate purposes, capital expenses, working capital, and acquisition of other telecommunications companies and/or telecommunications equipment. The Applicants assert that the financing arrangement will provide the financial resources needed to further grow and expand their business and to compete in a highly competitive telecommunications market.

Staff's financial analysis indicates that the Applicants' financial metrics for the proposed borrowing are not consistent with sound financial practices. However, foreign public service corporations, such as Global Crossing Telecommunications, Inc., that provide communication service whose facilities are also used in interstate commerce are exempt from application of A.R.S. §40-301 that prohibits authorization of debt unless the Commission finds that the debt issuance is compatible with sound financial practices. GCTI is the only entity among the Applicants that is participating directly in the borrowing, and Staff finds that it satisfies the criteria for exemption under A.R.S. §40-301(D). GCTI also provides telecommunications services in competition with other providers and is not an incumbent provider of telecommunications services in Arizona. Its customers have alternate service provider choices to mitigate any inconvenience that may result from an inability by GTCI to provide service. Further, the anticipated lender is a sophisticated investor, and therefore, presumed to have the

¹ GCTI was granted a CC&N by the Commission in Decision No. 54505.

² GCNAN was granted a CC&N by the Commission in Decision No. 60143.

³ GCLSI was granted a CC&N by the Commission in Decision No. 61622.

⁴ GC Telemanagement was granted a CC&N by the Commission in Decision No. 61213.

knowledge and experience in financial and business matters to evaluate the merits and risks of its investment.

Each of the Applicants requests authorization to pledge assets as security for the debt issuance. A pledge of the Applicants' assets should not impair the availability of service to customers since the Applicants provide competitive services that are available from alternate service providers. Staff also concludes that the pledge of assets by any of the Applicants should not impair their financial status, further impair their ability to attract capital at fair and reasonable terms or impair their ability to provide safe, reasonable and adequate service (See A.A.C. R14-2(804)(C)). However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, any authorization for encumbrances should provide customer protection for prepayments and deposits.

Staff recommends approval for each of the Applicants to pledge assets as a guarantee or to provide other forms of security for the applied for borrowings up to \$200 million subject to the condition that all Arizona customer deposits and prepayments, if any, be excluded from encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit which is not included in the pledged collateral.

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Introduction

Global Crossing Telecommunications, Inc. ("GCTI"), Global Crossing North American Networks, Inc. ("GCNAN"), Global Crossing Local Services, Inc. ("GCLSI"), and Global Crossing Telemanagement, Inc. ("GC Telemanagement") collectively ("Applicants") filed an application with the Arizona Corporation Commission ("Commission") on June 2, 2006, requesting approval pursuant to A.R.S. §40-285 and R14-2-804(B)(1) to enter and possibly join as principal into a bank credit agreement and other instruments in concert with Global Crossing North America ("Parent") for general corporate purposes, capital expenses, working capital, and acquisition of other telecommunications companies and/or telecommunications equipment. Authority is also requested to pledge assets of the Applicants.

Public Notice

Notice of the financing application was published in the *Arizona Republic* on August 11, 2006. A copy of the notice is attached.

Background

The Applicants are non-dominant telecommunications carriers collectively with authority to provide competitive local exchange, intrastate and private line services within the state of Arizona. GCTI⁵ is a Michigan corporation; GCNAN⁶ is a New York corporation; GCLSI⁷ is a Delaware corporation; and GC Telemanagement⁸ is a Wisconsin corporation. The Applicants are wholly-owned subsidiaries of Parent, a Delaware corporation, which is in turn a wholly-owned subsidiary of Global Crossing Limited, an exempt company with limited liability organized under the laws of Bermuda. Applicants and Parent are headquartered in Pittsford, NY. Global Crossing Limited is headquartered Hamilton, Bermuda.

Global Crossing Local Services, Inc. provides facilities based competitive local exchange services to approximately 46 business customers in the Phoenix metro area. Global Crossing Local Services has invested in switch and facilities for intrastate telecommunications and also provides intrastate services through resale arrangements with other carriers. Global Crossing Telecommunications, Inc. is a long distance carrier that provides voice communications service to business customers throughout the United States and in Arizona. Global Crossing North American Networks provides data transmission and communications services to business customers throughout the United States and Arizona. Global Crossing Telemanagement is a reseller of long distance telephone services. Overall the Companies provide services in all 50 states and the District of Columbia. Customers of the Applicants have alternate service

⁵ GCTI is a Michigan corporation which was granted a CC&N by the Commission in Decision No. 54505.

⁶ GCNAN is New York corporation which was granted a CC&N by the Commission in Decision No. 60143.

⁷ GCLSI is a Delaware corporation which was granted a CC&N by the Commission in Decision No. 61622.

⁸ GC Telemanagement is a Wisconsin corporation which was granted a CC&N by the Commission in Decision No. 61213.

providers and would not experience significant harm in the event that the Applicants and/or Parent experiences financial difficulties.

Per the application, as of April 30, 2006, the Applicants hold no deposits or prepayments from Arizona customers.

Purpose of the Financing

The Applicants and Parent propose to use borrowed funds for general corporate purposes, capital expenses and working capital, as well as acquisition of other telecommunication companies and/or telecommunications assets. The Applicants assert that the proposed transaction will provide the financial resources needed to further grow and expand their businesses and to compete in today's highly competitive market.

Description of Proposed Financing

The proposed \$200 million new debt financing consists of a \$55 million senior revolving credit line and \$145 million in letters of credit, secured and unsecured notes and term loans. The terms of the financings have yet to be completed.

The Applicants anticipate that any interest rate will likely be the market rate for similar financing and will not be determined until such time as each financing is finalized. The interest rate will have two components, a base rate and a margin rate. The base rate would be defined as the base or prime rate charged by a specified major bank for loans of similar size with similar maturities or as an adjusted federal funds rate. The margin rate would be compensation over and above the base rate for the Parent's particular relative risk. It is expected that the revolving senior credit facility to be provided will bear interest at a rate equal to LIBOR plus 300 basis points or the bank's prime rate plus 150 basis points plus a commitment fee of 0.45 percent.

The Applicants also contemplate asset pledges that include, but are not limited to a security interest in their receivables, tangible personal property, equipment, intellectual property, their stock as well as substantially all of their North American assets as collateral security for the debt, i.e., credit facility and related loans.

Financial Analysis

Debt Issuance

Staff performed a financial analysis based on financial statements for the twelve-month fiscal year ended December 31, 2005.⁹ Staff's analysis revealed that the Applicants' financial circumstances are consistent with those commonly found in the telecommunications industry at present. Staff's analysis indicates that the financial metrics for issuance of the proposed debt for

⁹ The Applicants assert that the detailed information in Staff's financial analysis is confidential.

each of the Applicants fall short of standards typically considered consistent with sound financial practices. In the instance of utilities providing service to captive customers in a non-competitive circumstance, A.R.S. §40-301 prohibits authorization of debt unless the Commission finds that the debt issuance is compatible with sound financial practices. However, pursuant to A.R.S. §40-301(D), foreign public service corporations providing communication service whose facilities are also used in interstate commerce are exempt from application of the statute.

Global Crossing Telecommunications, Inc. ("GCTI") is the only entity among the Applicants that is participating directly in the borrowing, and Staff finds that it satisfies the criteria for exemption. GCTI also provides telecommunications services in competition with other providers and is not an incumbent provider of telecommunications services in Arizona. GCTI's customers have alternate service provider choices to mitigate any inconvenience that may result from its inability to provide service. Further, the anticipated lender is a sophisticated investor, and therefore, presumed to have the knowledge and experience in financial and business matters to evaluate the merits and risks of its investment.

Encumbrance

Each of the Applicants requests authorization to pledge assets as security for the debt issuance. A.R.S. §40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service, thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. In this instance, a pledge of the Applicants' assets should not impair the availability of service to customers since the Applicants provide competitive services that are available from alternate service providers. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, Staff finds that any authorization for encumbrances should provide customer protection for prepayments and deposits.

Conclusion and Recommendations

Staff concludes that issuance of the proposed debt would serve to assist the Applicants to operate effectively.

Staff concludes that the Applicants' financial metrics for issuance of the proposed debt are not consistent with sound financial practices.

Staff concludes that GCTI as a foreign public service corporation that provides communication service whose facilities are also used in interstate commerce is not prohibited by statute from obtaining Commission approval for the proposed debt despite its financial metrics.

Staff concludes that the pledge of assets by any of the Applicants should not further impair their financial status, further impair their ability to attract capital at fair and reasonable terms or impair their ability to provide safe, reasonable and adequate service [See A.A.C. R14-

2(804)(C)]. However, customers may still have exposure to losses to the extent they have prepaid for service or made deposits. Accordingly, any authorization for encumbrances should provide customer protection for prepayments and deposits.

Staff recommends approval for each of the Applicants to pledge assets as a guarantee or to provide other forms of security for the applied for borrowings up to \$200 million subject to the condition that all Arizona customer deposits and prepayments, if any, be excluded from encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit which is not included in the pledged collateral.

Staff further recommends authorizing the Applicants to engage in any transactions and to execute or cause to be executed any documents so as to effectuate the authorizations requested with the application.

Staff further recommends that the Applicants' provide to the Commission within 60 days of the loan package closing, a copy of all notes and other documents memorializing the authorized transaction(s).

M E M O R A N D U M

TO: Michael Bailey
Public Utilities Analyst III
Utilities Division

FROM: Deb Reagan
Public Utilities Consumer Analyst II
Utilities Division

DATE: June 13, 2006

UTILITY: GLOBAL CROSSING TELECOMMUNICATIONS, INC.
Docket NO. T-02438B-06-0375

GLOBAL CROSSING NORTH AMERICAN NETWORKS, INC.
Docket NO. T-02761B-06-0375

GLOBAL CROSSING LOCAL SERVICES, INC.
Docket NO. T-03658A-06-0375

GLOBAL CROSSING TELEMAGEMENT, INC.
Docket No. T-03539A-06-0375

In the matter of the application of Global Crossing Telecommunications, Inc., Global Crossing North American Networks, Inc., Global Crossing Local Services, Inc. and Global Crossing Telemagement, Inc. for approval to Encumber Assets in Connection with New Financing.

Per information received from the Corporations Division on June 13, 2006 regarding the corporate status of the above companies, all are in Good Standing.

In researching the Utilities database for complaints for these companies from January 1, 2003 through June 13, 2006, the results are listed below:

Global Crossing Telecommunications, Inc. – T-02438B

2006 – No Complaints, Inquiries, or Opinions

2005 - No Complaints

One Inquiry (unauthorized carrier)

One Opinion

2004 – One Complaint (billing)
No Inquiries
No Opinions

2003 – No Complaints
Two Inquiries (billing)
No Opinions

Global Crossing North American Networks – T-02761B

2006 – One Complaint (billing)
No Inquiries
No Opinions

2005 – One Complaint (billing)
No Inquiries
No Opinions

2004 – One Complaint (unauthorized carrier)
One Inquiry (unauthorized carrier)
No Opinions

2003 – One Complaint (unauthorized carrier)
One Inquiry (unauthorized carrier)
No Opinions

Global Crossing Local Services, Inc. – T-03658A

No Complaints, Inquiries or Opinions

Global Crossing Telemanagement, Inc. – T-03539A

No Complaints, Inquiries or Opinions

All Complaints, Inquiries and Opinions have been resolved.

BEFORE THE ARIZONA CORPORATION COMMISSION
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JEFF HATCH-MILLER
 Chairman
 WILLIAM A. MUNDELL
 Commissioner
 MIKE GLEASON
 Commissioner
 KRISTIN K. MAYES
 Commissioner
 BARRY WONG
 Commissioner

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AUG 15 2006

AZ CORP COMM
 Director Utilities

IN THE MATTER OF THE APPLICATION OF
 GLOBAL CROSSING
 TELECOMMUNICATIONS, INC; GLOBAL
 CROSSING NORTH AMERICAN NETWORKS,
 INC.; GLOBAL CROSSING LOCAL SERVICES,
 INC.; GLOBAL CROSSING
 TELEMAGEMENT, INC. FOR APPROVAL
 TO ENCUMBER ASSETS IN CONNECTION
 WITH NEW FINANCING

) DOCKET NO. T-02438B-06-0375
) T-02761B-06-0375
) T-03658A-06-0375
) T-03539A-06-0375

GLOBAL CROSSING
NOTICE OF FILING
AFFIDAVIT OF PUBLICATION

Global Crossing Telecommunications, Inc., Global Crossing North American Networks, Inc., Global Crossing Local Services, Inc. and Global Crossing Telemagement, Inc. (collectively, the "Global Crossing" or "Applicants"), hereby file the attached Affidavit of Publication evidencing the public notice given on August 11, 2006, regarding the Application for Approval to Encumber Assets in Connection with New Financing.

Submitted this 14th day of August, 2006.

OSBORN MALEDON, P.A.

By Joan S. Burke
 Joan S. Burke
 Osborn Maledon P.A.
 2929 North Central, Suite 2100
 Phoenix, Arizona 85012
 Telephone: (602) 640-9356
 Facsimile: (602) 640-6074
 Jburke@omlaw.com
 and

Joan M. Griffin
Melissa S. Conway
KELLEY DRYE & WARREN LLP
3050 K Street, N.W., Suite 400
Washington, D.C. 20007
Telephone: (202) 342-8400
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JGriffin@kelleydrye.com
MConway@kelleydrye.com

Attorneys for:
Global Crossing Telecommunications, Inc.,
Global Crossing North American Networks, Inc.,
Global Crossing Local Services, Inc., and
Global Crossing Telemanagement, Inc.

ORIGINAL and 19 copies of the foregoing
filed this 14th day of August, 2006, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing sent via hand-delivery
this 14th day of August, 2006, to:

Michael Bailey
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Maureen A. Scott
Senior Staff Counsel
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Brenda Wendt

THE ARIZONA REPUBLIC

Public Notice of Filing of Approval to Encumber Assets in Connection with New Financing of Global Crossing Telecommunications, Inc., Global Crossing North American Networks, Inc., Global Crossing Local Services, Inc. and Global Crossing Telemanagement, Inc. (collectively, the "Applicants") filed an application with the Arizona Corporation Commission ("Commission") on June 2, 2006, asking for authorization to provide their guarantee, serve as borrowers or co-borrowers, or to otherwise provide security in connection with financings of up to \$200 million entered into by Applicants' parent company, Global Crossing North American, Inc. The Application is available for inspection during regular business hours at the office of the Commission located at 1200 West Washington Street, Phoenix, Arizona 85007; and at the office of Applicants' legal counsel, Osborn Maledon PA, 2929 North Central, Suite 2100, Phoenix, AZ 85012. The Commission may grant the Application without a hearing. If you have any questions concerning this Application, have objections to its approval, or want information on intervention, you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona 85007, or call 1-800-222-7000. The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a language interpreter, as well as request this document in an alternative format, by contacting Linda Hogan, ADA Coordinator, voice phone number 602-542-3931, e-mail lhogan@azcc.gov. Requests should be made as early as possible to arrange the accommodation. Published: August 11, 2006

STATE OF ARIZONA
COUNTY OF MARICOPA } SS.

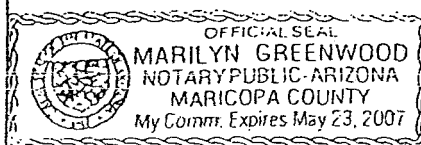
Karen Way, being first duly sworn, upon oath deposes and says: That she is a legal advertising representative of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published at Phoenix, Arizona, by Phoenix Newspapers Inc., which also publishes The Arizona Republic, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates as indicated.

The Arizona Republic

August 11, 2006

Karen Way

Sworn to before me this
11TH day of
August A.D. 2006



Marilyn Greenwood
Notary Public

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 JEFF HATCH-MILLER, Chairman
4 WILLIAM A. MUNDELL
5 MIKE GLEASON
6 KRISTIN K. MAYES
7 GARY PIERCE

8 IN THE MATTER OF THE APPLICATION OF
9 GLOBAL CROSSING
10 TELECOMMUNICATIONS, INC.; GLOBAL
11 CROSSING NORTH AMERICAN
12 NETWORKS, INC.; GLOBAL CROSSING
13 LOCAL SERVICES, INC.; GLOBAL
14 CROSSING TELEMAGEMENT, INC. FOR
15 APPROVAL TO ENCUMBER ASSETS IN
16 CONNECTION WITH NEW FINANCING

DOCKET NO. T-02438B-06-0375
T-02761B-06-0375
T-03658A-06-0375
T-03539A-06-0375

DECISION NO. _____

ORDER

11 Open Meeting
12 February 13 and 14, 2007
13 Phoenix, Arizona

14 **BY THE COMMISSION:**

15 **FINDINGS OF FACT**

16 1. Global Crossing Telecommunications, Inc. ("GCTI")¹, Global Crossing North
17 American Networks, Inc. ("GCNAN")², Global Crossing Local Services, Inc. ("GCLSI")³, and
18 Global Crossing Telemagement, Inc. ("GC Telemagement")⁴ collectively ("Applicants") are
19 wholly-owned subsidiaries of Global Crossing North America, Inc. ("Parent") and are non-dominant
20 telecommunications carriers with authority to provide competitive local exchange, intrastate, and
21 private line services within the state of Arizona.

22 2. The Applicants filed an application with the Arizona Corporation Commission
23 ("Commission") on June 2, 2006, requesting approval pursuant to A.R.S. §40-285 and R14-2-
24 804(B)(1) to provide guarantee, serve as borrowers or co-borrowers, or otherwise provide security, as
25 part of financing arrangements being arranged by Parent.

26 _____
27 ¹ GCTI is a Michigan corporation which was granted a CC&N by the Commission in Decision No. 54505.

28 ² GCNAN is New York corporation which was granted a CC&N by the Commission in Decision No. 60143.

³ GCLSI is a Delaware corporation which was granted a CC&N by the Commission in Decision No. 61622.

⁴ GC Telemagement is a Wisconsin corporation which was granted a CC&N by the Commission in Decision No. 61213.

DECISION NO. _____

1 3. The Applicants request authorization to pledge assets as security and/or serve as
2 borrowers or co-borrowers with Parent in connection with up to \$200 million of new debt financing
3 that includes a \$55 million revolving senior credit facility and \$145 million as letters of credit,
4 secured and unsecured debentures and term loans. The Applicants' contemplate asset pledges that
5 include, but are not limited to, receivables, tangible personal property, equipment, intellectual
6 property, their stock as well as substantially all of their North American assets.

7 4. The Applicants and/or Parent intend to use the proceeds for general corporate
8 purposes, capital expenses, working capital, and acquisition of other telecommunications companies
9 and/or telecommunications equipment. The Applicants assert that the financing arrangement will
10 provide the financial resources needed to further grow and expand their business and to compete in a
11 highly competitive telecommunications market.

12 5. Foreign public service corporations, such as Global Crossing Telecommunications,
13 Inc., that provide communication service whose facilities are also used in interstate commerce are
14 exempt from application of A.R.S. §40-301 that prohibits authorization of debt unless the
15 Commission finds that the debt issuance is compatible with sound financial practices. GCTI is the
16 only entity among the Applicants that is participating directly in the borrowing, and Staff finds that it
17 satisfies the criteria for exemption under A.R.S. §40-301(D). GCTI also provides
18 telecommunications services in competition with other providers and is not an incumbent provider of
19 telecommunications services in Arizona. Its customers have alternate service provider choices to
20 mitigate any inconvenience that may result from an inability by GTCI to provide service. Further,
21 the anticipated lender is a sophisticated investor, and therefore, presumed to have the knowledge and
22 experience in financial and business matters to evaluate the merits and risks of its investment.

23 6. Each of the Applicants requests authorization to pledge assets as security for the debt
24 issuance. A pledge of the Applicants' assets should not impair the availability of service to
25 customers since the Applicants provide competitive services that are available from alternate service
26 providers. Staff also concludes that the pledge of assets by any of the Applicants should not impair
27 their financial status, further impair their ability to attract capital at fair and reasonable terms or
28

1 impair their ability to provide safe, reasonable and adequate service (See A.A.C. R14-2(804)(C).
2 However, customers may still have exposure to losses to the extent they have prepaid for service or
3 made deposits. Accordingly, any authorization for encumbrances should provide customer protection
4 for prepayments and deposits.

5 7. Staff recommends approval for each of the Applicants to pledge assets as a guarantee
6 or to provide other forms of security for the applied for borrowings up to \$200 million subject to the
7 condition that all Arizona customer deposits and prepayments, if any, be excluded from
8 encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit
9 which is not included in the pledged collateral.

10 8. Global Crossing Telecommunications, Inc. ("GCTI"), Global Crossing North
11 American Networks, Inc. ("GCNAN"), Global Crossing Local Services, Inc. ("GCLSI"), and Global
12 Crossing Telemanagement, Inc. ("GC Telemanagement") collectively ("Applicants") filed an
13 application with the Arizona Corporation Commission ("Commission") on June 2, 2006, requesting
14 approval pursuant to A.R.S. §40-285 and R14-2-804(B)(1) to enter and possibly join as principal into
15 a bank credit agreement and other instruments in concert with Global Crossing North America
16 ("Parent") for general corporate purposes, capital expenses, working capital, and acquisition of other
17 telecommunications companies and/or telecommunications equipment. Authority is also requested to
18 pledge assets of the Applicants.

19 9. Notice of the financing application was published in the *Arizona Republic* on August
20 11, 2006.

21 10. The Applicants are non-dominant telecommunications carriers collectively with
22 authority to provide competitive local exchange, intrastate and private line services within the state of
23 Arizona. GCTI⁵ is a Michigan corporation; GCNAN⁶ is a New York corporation; GCLSI⁷ is a
24 Delaware corporation; and GC Telemanagement⁸ is a Wisconsin corporation. The Applicants are
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27 ⁶ GCNAN was granted a CC&N by the Commission in Decision No. 60143.

⁷ GCLSI was granted a CC&N by the Commission in Decision No. 61622.

28 ⁸ GC Telemanagement was granted a CC&N by the Commission in Decision No. 61213.

1 wholly-owned subsidiaries of Parent, a Delaware corporation, which is in turn a wholly-owned
2 subsidiary of Global Crossing Limited, an exempt company with limited liability organized under the
3 laws of Bermuda. Applicants and Parent are headquartered in Pittsford, NY. Global Crossing
4 Limited is headquartered Hamilton, Bermuda.

5 11. Global Crossing Local Services, Inc. provides facilities based competitive local
6 exchange services to approximately 46 business customers in the Phoenix metro area. Global
7 Crossing Local Services has invested in switch and facilities for intrastate telecommunications and
8 also provides intrastate services through resale arrangements with other carriers. Global Crossing
9 Telecommunications, Inc. is a long distance carrier that provides voice communications service to
10 business customers throughout the United States and in Arizona. Global crossing North American
11 Networks provides data transmission and communications services to business customers throughout
12 the United States and Arizona. Global Crossing Telemanagement is a reseller of long distance
13 telephone services. Overall the Companies provide services in all 50 states and the District of
14 Columbia. Customers of the Applicants have alternate service providers and would not experience
15 significant harm in the event that the Applicants and/or Parent experiences financial difficulties.

16 12. Per the application, as of April 30, 2006, the Applicants hold no deposits or
17 prepayments from Arizona customers.

18 13. The Applicants and Parent propose to use borrowed funds for general corporate
19 purposes, capital expenses and working capital, as well as acquisition of other telecommunication
20 companies and/or telecommunications assets. The Applicants assert that the proposed transaction
21 will provide the financial resources needed to further grow and expand their businesses and to
22 compete in today's highly competitive market.

23 14. The proposed \$200 million new debt financing consists of a \$55 million senior
24 revolving credit line and \$145 million in letters of credit, secured and unsecured notes and term
25 loans. The terms of the financings have yet to be completed.

26 15. The Applicants anticipate that any interest rate will likely be the market rate for
27 similar financing and will not be determined until such time as each financing is finalized. The
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1 interest rate will have two components, a base rate and a margin rate. The base rate would be defined
2 as the base or prime rate charged by a specified major bank for loans of similar size with similar
3 maturities or as an adjusted federal funds rate. The margin rate would be compensation over and
4 above the base rate for the Parent's particular relative risk. It is expected that the revolving senior
5 credit facility to be provided will bear interest at a rate equal to LIBOR plus 300 basis points or the
6 bank's prime rate plus 150 basis points plus a commitment fee of 0.45 percent.

7 16. The Applicants also contemplate asset pledges that include, but are not limited to a
8 security interest in their receivables, tangible personal property, equipment, intellectual property,
9 their stock as well as substantially all of their North American assets as collateral security for the
10 debt, i.e., credit facility and related loans.

11 17. Staff performed a financial analysis based on financial statements for the twelve-
12 month fiscal year ended December 31, 2005.⁹ Staff's analysis revealed that the Applicants' financial
13 circumstances are consistent with those commonly found in the telecommunications industry at
14 present. Staff's analysis indicates that the financial metrics for issuance of the proposed debt for each
15 of the Applicants fall short of standards typically considered consistent with sound financial
16 practices. In the instance of utilities providing service to captive customers in a non-competitive
17 circumstance, A.R.S. §40-301 prohibits authorization of debt unless the Commission finds that the
18 debt issuance is compatible with sound financial practices. However, pursuant to A.R.S. §40-301(D),
19 foreign public service corporations providing communication service whose facilities are also used in
20 interstate commerce are exempt from application of the statute.

21 18. Global Crossing Telecommunications, Inc. ("GCTI") is the only entity among the
22 Applicants that is participating directly in the borrowing, and Staff finds that it satisfies the criteria
23 for exemption. GCTI also provides telecommunications services in competition with other providers
24 and is not an incumbent provider of telecommunications services in Arizona. GCTI's customers have
25 alternate service provider choices to mitigate any inconvenience that may result from its inability to
26 provide service. Further, the anticipated lender is a sophisticated investor, and therefore, presumed to
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28 ⁹ The Applicants assert that the detailed information in Staff's financial analysis is confidential.

1 have the knowledge and experience in financial and business matters to evaluate the merits and risks
2 of its investment.

3 19. Each of the Applicants requests authorization to pledge assets as security for the debt
4 issuance. A.R.S. §40-285 requires public service corporations to obtain Commission authorization to
5 encumber certain utility assets. The statute serves to protect captive customers from a utility's act to
6 dispose of any of its assets that are necessary for the provision of service, thus, it serves to preempt
7 any service impairment due to disposal of assets essential for providing service. In this instance, a
8 pledge of the Applicants' assets should not impair the availability of service to customers since the
9 Applicants provide competitive services that are available from alternate service providers.
10 However, customers may still have exposure to losses to the extent they have prepaid for service or
11 made deposits. Accordingly, Staff finds that any authorization for encumbrances should provide
12 customer protection for prepayments and deposits.

13 20. Staff has concluded that issuance of the proposed debt would serve to assist the
14 Applicants to operate effectively.

15 21. Staff has concluded that the Applicants' financial metrics for issuance of the proposed
16 debt are not consistent with sound financial practices.

17 22. Staff has concluded that the pledge of assets by any of the Applicants should not
18 further impair their financial status, further impair their ability to attract capital at fair and reasonable
19 terms or impair their ability to provide safe, reasonable and adequate service [See A.A.C. R14-
20 2(804)(C)]. However, customers may still have exposure to losses to the extent they have prepaid for
21 service or made deposits. Accordingly, any authorization for encumbrances should provide customer
22 protection for prepayments and deposits.

23 23. Staff recommends approval for each of the Applicants to pledge assets as a guarantee
24 or to provide other forms of security for the applied for borrowings up to \$200 million subject to the
25 condition that all Arizona customer deposits and prepayments, if any, be excluded from
26 encumbrance, or in the alternative, be secured by a bond or an irrevocable sight draft letter of credit
27 which is not included in the pledged collateral.

25. Staff further recommends that the Applicants' provide to the Commission within 60 days of the loan package closing, a copy of all notes and other documents memorializing the authorized transaction(s).

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1 IT IS FURTHER ORDERED that Applicants are hereby authorized to engage in any
2 transactions and to execute or cause to be executed any documents so as to effectuate the
3 authorizations requested with the application.

4 IT IS FURTHER ORDERED that Applicants' shall provide to the Commission within 60
5 days of the loan package closing, a copy of all notes and other documents memorializing the
6 authorized transaction(s).

7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.
8

9 **BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

10
11 _____
12 CHAIRMAN

COMMISSIONER

13
14 _____
15 COMMISSIONER

COMMISSIONER

COMMISSIONER

16
17
18
19 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
20 Director of the Arizona Corporation Commission, have
21 hereunto, set my hand and caused the official seal of this
22 Commission to be affixed at the Capitol, in the City of Phoenix,
23 this ____ day of February, 2007.

24 _____
25 BRIAN C. McNEIL
26 Executive Director

27 DISSENT: _____

28 DISSENT: _____

SERVICE LIST FOR: GLOBAL CROSSING TELECOMMUNICATIONS, INC.; GLOBAL
CROSSING NORTH AMERICAN NETWORKS, INC.; GLOBAL
CROSSING LOCAL SERVICES, INC.; GLOBAL CROSSING
TELEMANAGEMENT, INC.

DOCKET NOS. T-02438B-06-0375, T-02761B-06-0375, T-03658A-06-0375, T-03530A-06-0375

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